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## SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

The Belgrade Conference has resulted in a completely Soviet-dominated regime for the Danube, thus demonstrating the Kremlin's determination to exclude Western influence from Eastern Europe and impress the Satellites with Soviet power.

The freight car exchange problem in Western Europe is further complicated by a stiffening French attitude.

The "Ship Argentine" policy of the Peron Administration, requiring the use of Argentine-flag vessels for at least 50 percent of Argentine exports, has adversely affected US shipping operations. If this policy is directed equally against all foreign vessels, however, US shipping lines will still account for a sufficiently important part of Argentine traffic to maintain scheduled operations.

The recent agreement between Bizonia and German authorities to purchase 17,000 new freight cars outside of Germany has hit a snag due to a lack of ECA funds. This complication will further delay the rehabilitation of Western German transportation.

The Czechoslovak Ministry of National Defense has continued furnishing fuel for the air transport of munitions to Palestine despite an acute shortage of aviation gasoline within Czechoslovakia, thus revealing the economic and political importance to the Czechoslovak Government of continued clandestine arms shipments.

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The French have acceded to US representations and agreed not only to delay delivery to Bulgaria of seven small aircraft, but also to refuse any request for sale of twin-engine types in which the Bulgarians are said to be interested.

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China has formally notified the USSR that it now desires to terminate the Sino-Soviet air agreement of 1939, providing for a joint monopoly of air operations between Alma Ata in the USSR and various points in Sinkiang Province.

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The continuing US-Peruvian civil aviation dispute may have serious repercussions. The dispute arose out of the Peruvian suspension of Braniff Airways' operating permit, on the ground that Braniff was making an unauthorized stop at Habana. No agreement was reached during the recent consultations, which were suspended on 26 July with inconclusive results. The US now proposes that the dispute be referred to a mutually satisfactory arbitral tribunal.

Peru has also indicated its desire to invoke inter-governmental consultation on the Peruvian contention that the respective capacities of services now being offered between the US and Peru by two US airlines and one Peruvian airline should be reconsidered. Peru's action in attempting to revoke rights previously granted to US airlines is believed to be the result of strong political pressure from the Peruvian national-flag airline. Although the US is willing to enter into consultation at any time, it believes that the capacity issue is premature, and that, in any event, serves an entirely different area of the US than Peruvian International. Proposals submitted by Peru on both the route and capacity questions have thus far been unacceptable to the US.

The probable necessity of protracted negotiations could result in considerable ill-will on both sides with consequent adverse effect on US political and aviation relations in Latin America.

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The Belgrade Conference, which resulted in adoption of a completely Soviet-dominated regime for the Danube, has demonstrated the policy the USSR will presumably follow in future international discussions where it holds the whiphand. The Soviet action in abrogating long-standing treaties, its rejection of proposed arbitration before the International Court of Justice, its willingness to repudiate financial obligations, and its complete disregard of the will of the minority, highlighted Soviet conference tactics. In the foregoing respects, and in the indifference which the USSR demonstrated toward the claims of smaller Western nations, the Kremlin has indicated that it is determined to exclude Western influence from Eastern Europe and to impress the Satellites with Soviet power even at the cost of increased antagonism and probable embarrassment to Communist minorities in Italy, France and Austria.

In view of the Soviet desire to gain entry along the Danube in the Allied zones above Mauthausen, thus extending Soviet influence further into Austria and Germany, and the interest of the West in rehabilitating traffic along the entire waterway, it is likely that there will be further discussions concerning freedom of navigation on the river. Such discussions would, however, place the USSR in the difficult position of either abandoning its past policy of refusing to allow free navigation between the upper Danube and the Soviet-controlled sectors, or admitting that the new convention, despite its language, does not in fact allow free access to all nations but is intended to continue exclusion of the West from the lower Danube.

The dead-locked European freight car tangle, after three years of controversy, is still unresolved, largely due to a markedly stiffened French attitude in recent weeks. Apparently not satisfied with the number of new freight cars which it will receive from direct ECA allocations, France is attempting to improve its rolling stock position still further by hard trading with Bizonia over the exchange of old German cars in France against French cars in Bizonia. In spite of an agreement concluded earlier this year, French railway authorities have not fulfilled their obligation to send 23,000 Reichsbahn cars back to Germany against the like number of French cars which have been circulating in Bizonia under Allied control. The French are now hinting that they may even demand rental for the use of French cars in Germany. At the same time, France is trying to block the allocation of new freight cars

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to Germany, on the grounds that such new equipment should go to France in payment for the old Reichsbahn cars which France would then release to Bizonia.

In addition to the difficulties caused by the French attitude, the total transportation potential of Western Europe has suffered as a consequence of complications arising out of jurisdictional conflicts and overlapping functions of the various agencies (inter-governmental, occupational and United Nations) which supervise European transportation.

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The "ship Argentine" policy of the Peron Administration has increasingly affected US shipping operations, following the recent Government order requiring the use of Argentine-flag vessels for at least 50 percent of exports.

The immediate effect of the policy has been to reduce substantially the share of Argentine trade carried in American-flag vessels. The Moore McCormack Lines, largest US-flag operator in the US-Argentina service, which carried 31 percent of all Argentine foreign trade in the first quarter of 1948, accounted for only 24 percent of the total in the second quarter. On the other hand, Dodero, the state-owned Argentine fleet, increased its share from 9 percent in the first quarter to 22 percent in the second quarter.

The shortage of dollar exchange would in any case have resulted in full utilization of the expanding Argentine merchant fleet, as well as in increased use of European bottoms for the developing trade with Europe. The Argentine Government, however, by direct intervention, has now accelerated this trend.

If the "ship Argentine" policy continues to permit one-half of Argentine trade to move in foreign bottoms, and if the policy is directed equally against all foreign vessels, US shipping lines, because of their major shipping role in this area, will still account for a sufficiently important part of Argentine traffic to maintain scheduled operations. If, however, sharp discrimination is practiced against US vessels it is probable that US shipping will be forced to withdraw from the Argentina trade, with repercussions in other areas served by the lines en route to Argentine ports.

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The recent agreement between Bizonia and German authorities for the acquisition outside Germany of 17,000 new freight cars was predicated on the availability of \$59,000,000 in ECA funds for this purpose. ECA, however, pointing out that the preliminary third-quarter ECA program does not provide these funds, now recommends that the equipment be purchased with funds provided by the Joint Export Import Agency in Bizonia. The result of this complication will be further delay in the rehabilitation of Western German transportation.

Despite a serious shortage of aviation gasoline in Czechoslovakia, the Ministry of National Defense has furnished fuel for the air transport of munitions to Palestine. The clandestine arms shipments to Palestine have obviously been of sufficient economic and political importance to the Czechoslovak Government to warrant the reduction of high octane fuel stocks to the point of endangering military reserves and threatening the foreign operations of the Czechoslovak national airline.

The French have acceded to US representations and agreed not only to delay delivery to Bulgaria of seven small aircraft, but also to refuse any request for sale of twin-engine types in which the Bulgarians are said to be interested. The French have thus again demonstrated their willingness to follow US suggestions concerning matters involving air relations with the Satellite states. France thus appears willing to collaborate with the US if invited to participate in a common air policy for Western Europe vis-a-vis the Satellites. (See Transportation Group Weekly Summary No. 21, 20 July 1948.)

China has formally notified the USSR that it now desires to terminate the Sino-Soviet air agreement of 1939, providing for a joint monopoly of air operations between Alma Ata in the USSR and various points in Sinkiang Province.

The original agreement provided for joint operating control, but the USSR gradually assumed all the functions of management, and China became a participant in name only. China's representations to the USSR in this regard were completely ignored.

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Meanwhile, China extended the Central Air Transport Company's air route from Nanking into Sinkiang on a scheduled basis and demanded that the monopoly feature of the Sino-Soviet agreement be relaxed. The Soviet condition for this concession was reported to be the right for Soviet aircraft to extend operations from Sinkiang Province approximately 700 miles eastward into Lanchow. This the Chinese did not concede and direct competition for local Sinkiang traffic developed.

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The continuing US - Peruvian civil aviation dispute may have serious repercussions. The dispute arose out of the Peruvian suspension of Braniff Airways' operating permit, on the ground that Braniff was making an unauthorized stop at Habana. (Transportation Group Weekly, 8 June 1948). Although US intercession resulted in the temporary withdrawal of the suspension order pending inter-governmental consultations, Peru still maintains its right to revoke Braniff's route authorization under the US-Peruvian bilateral civil aviation agreement.

No agreement was reached during the consultations, which were suspended on 26 July with inconclusive results. The US now proposes that the dispute be referred to a mutually satisfactory arbitral tribunal. Since the dispute involves the interpretation of an omnibus provision of the bilateral agreement which is included in most US civil aviation agreements, US air rights obtained throughout the world on a similar basis will be jeopardized if the Peruvian position is upheld.

Peru has also indicated its desire to invoke inter-governmental consultation on another outstanding point of difference between the two countries. This is the Peruvian contention that the respective capacities of services now being offered between the US and Peru by two US airlines and one Peruvian airline should be reconsidered. Fearing US competition, and claiming that traffic is insufficient to support Braniff's service without grievous effect on Peruvian International Airways, Peru has proposed an immediate reduction of US airline frequencies to Peru pending settlement of the entire capacity question.

Peru's action in attempting to revoke rights previously granted to US airlines is believed to be the result of strong political pressure from the Peruvian national-flag airline. Although the US is willing to enter into consultation at any time, it believes that the capacity issue is premature, and that Braniff in any

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event serves an entirely different area of the US than Peruvian International. Proposals submitted by Peru on both the route and capacity questions have thus far been unacceptable to the US. The probable necessity of protracted negotiations could result in considerable ill-will on both sides with consequent adverse effect on US political and aviation relations in Latin America.

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